



Audit Division Completes Corrective Action Plan

Numerous reform initiatives in place to restore professionalism to the Office of Erie County Comptroller

(Buffalo) – The Audit Division within the Office of Erie County Comptroller has completed a corrective action plan to address and correct numerous deficiencies discovered when Stefan I. Mychajliw took office on January 1st, 2013. One of the first “top to bottom” reviews conducted by the Erie County Comptroller was of his own office, which identified serious problems pertaining to the lack of professional standards going back many years.

Many deficiencies, risks, and concerns within the Audit Division were identified by the Comptroller’s Office review that was released on January 18th, 2013. An Erie County Comptroller’s Office Division of Audit and Control Quality Assurance Review identified a total of eleven deficiencies and have now implemented and are in the process of implementing 23 corrective action items to fix problems.

Some of the key findings and the corrective action taken were outlined in a report from the Division of Audit to Erie County Comptroller Stefan I. Mychajliw. Some key measures include:

Finding: No Audit Plan filed since 1988

Corrective Action: Deputy Comptroller for Audit completed a final Audit Plan to assign auditors assignments with concrete benchmarks, goals, and accountability standards for when work needs to be completed. Under previous Erie County Comptrollers, supervisors told workers what to audit not based on a formal Audit Plan, and without accountable time frames on when audits needed to be completed.

Finding: No employee evaluations for auditors

Correction Action: Project performance evaluations for audit staff were designed and completed. A formal survey was also completed to receive feedback from auditors. Annual worker evaluations/reviews will also take place, something that was not done in the past, even though employee raises should be determined based on an annual review.

Finding: A complete Audit Manual has not been completed since 1992

Corrective Action: While the department Audit Manual was briefly updated in 2009, a complete Audit Manual has not been finalized for more than 20 years. This is critically important because office policies and procedures are based on the Audit Manual. Audit staff is currently working on the completion of the Audit Manual by the end of the year.

Finding: Supervisors were never assigned for each audit

Corrective Action: Now one member of audit staff is assigned as a supervisor for each audit to ensure benchmarks and accountability standards set out in the Audit Plan are met.

Finding: No accountability for staff when working on audits

Corrective Action: Auditors now submit detailed time sheets outlining all of their work on audits; the Deputy Comptroller conducts bi-weekly staff meetings with the entire team, and individual meetings with auditors every two weeks.

Finding: No documentation to support ongoing professional continuing education for auditors

Corrective Action: Auditors are now given time throughout the year to complete the required 24 hours of continuing education, which will be documented, unlike previous years.

Other reform initiatives put in place by the Office of Erie County Comptroller was to hire a Certified Public Accountant (CPA) to lead the Audit Division for the first time since 2006. The appointment of CPA Teresa Fraas to the position of Deputy Comptroller for Audit also marks the first time in county history a woman served in that capacity.

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ERIE COUNTY COMPTROLLER'S OFFICE DIVISION OF AUDIT AND CONTROL
QUALITY ASSURANCE REVIEW CORRECTIVE ACTION PLAN
June 2013

Finding/Deficiency	Risk/Concern	Corrective Action	Completion Date
1. Lack of quality control processes within the Internal Audit Department	Non-compliance with IIA and GAS standards	a. Develop IAD charter that details the responsibility and authority of the audit department	12-31-2013
	Lack of credibility relating to audit efforts	b. Update the current policy and procedure manual to be more comprehensive.	12-31-2013
		c. Develop annual audit plan with project budgets by project and auditor to aid in planning and controlling individual assignments.	Completed
		d. Develop project performance evaluations for audit staff and design a survey for feedback from auditee	Completed
2. Processes are insufficient to ensure Independence (i.e. auditors are required to be impartial, objective and fair) Independence may be impaired due to personal, external and organizational influence	Non-compliance with IIA and GAS standards	a. Design a process for auditors to determine that one or more of the three categories of impairments to independence exist for an audit.	Completed
	Lack of credibility relating to audit efforts	b. Introduce legislation to expand the role and responsibility of Chief Auditor relating to independence and undue influence by others on audit results. Include language that includes oversight of other entities.	2014
3. Current audit staff may not have the education, experience, abilities and/or skills required to perform professional audits	Non-compliance with IIA and GAS standards	a. Continue to work collaboratively with Commissioner of personnel to ensure that job descriptions reflect required performance and proficiency criteria and that required skills sets are validated prior to hiring or taking civil service exams	Ongoing
	Lack of credibility relating to audit efforts	b. conduct periodic and annual performance reviews	Ongoing and 12-31-2013
4. Lack of evidence that IA Staff have met the continuing education requirements set by Industry Standards. Could not determine if required education was obtained.	Non-compliance with IIA and GAS standard	a. Budget sufficient money to provide mechanisms for obtaining CEU's	12-31-2013
	Lack of credibility relating to audit efforts	b. Develop process for tracking annual individual CEU	Completed
		c. Provide sufficient time in annual plan for attending training classes	Completed

Finding/Deficiency	Risk/Concern	Corrective Action	Completion Date
<p>5. a. Audit programs steps do not include required supervisory review</p> <p>b. There is no accountability for time spent on projects</p> <p>c. Past assignments did not assign a lead auditor</p>	<p>Work performed is not sufficient to achieve objectives.</p> <p>Evidence obtained does not support findings</p> <p>Low productivity and low number of completed projects effects credibility and justification for audit department</p>	<p>a. Update audit manual to include policies and procedures for supervising audit work. Procedures will include defined roles and responsibilities When completed, provide training to all audit staff.</p> <p>b. assign supervisory responsibilities for each audit project</p> <p>c. create monthly audit status report for Chief Auditor that compares budget to actual</p>	<p>12-31-2013</p> <p>Completed</p> <p>Completed</p>
<p>6. No written guidance on obtaining and documenting evidence and no written instructions for preparing workpapers</p>	<p>Work performed is not sufficient to achieve objectives.</p> <p>Evidence obtained does not support findings</p> <p>Low productivity and low number of completed projects effects credibility and justification for audit department</p>	<p>Update audit manual to include policies and procedures for obtaining and documenting evidence. Prepare written instructions for preparing workpapers. When completed, provide training to all audit staff.</p>	<p>12-31-2013</p>
<p>7. Audit steps are not always designed to assess the presence, effectiveness or adequacy of internal control procedures or practices</p>	<p>Internal controls may not be sufficient t ensure that risk is minimized</p>	<p>a. Provide guidance to staff on evaluating internal controls. Also provide guidance on types of risk.</p> <p>b. Include evaluation of internal controls and risk identification in audit manual.</p>	<p>Completed</p> <p>12-31-2013</p>
<p>8. Audit steps are not always designed to provide reasonable assurance that an audited entity adhered to the requirements of law and regulation</p>	<p>Departmental procedures may not be in compliance with regulatory requirements.</p>	<p>a. For all audit projects started in 2013, include audit steps to provide reasonable assurance that the audited entity adhered to requirements of law and regulation</p> <p>b. include this process in departmental audit manual</p>	<p>Completed</p> <p>12-31-2013</p>

Finding/Deficiency	Risk/Concern	Corrective Action	Completion Date
9. There is a lack of sufficient guidance covering report preparation	Issued reports may not meet the standards as prescribed by IIA and/or GAGAS	a. For all audit projects completed in 2013, ensure that the report preparation process will include procedures that ensure the final report meets the standards as prescribed by IIA, GAAP and GAGAS. b. The department audit manual will include report preparation procedures in sufficient detail to ensure that all standards prescribed by IIA, GAAP and GAGAS are met.	Completed 12-31-2013
10. There is no internal audit department policy that requires monitoring of action taken on audit findings and to periodically report recommendations not resolved	Audited entities may not address deficiencies noted in audit reports	Develop written departmental policy that requires a process for monitoring of actions taken on audit findings that includes the periodic reporting of report recommendations not resolved	12-31-2013
11. There is no appropriate guidance on how and when the internal audit department is to report instances of fraud, abuse, or illegal acts	Appropriate action may not be taken to stop fraud, abuse or illegal acts	Develop guidance in conjunction with the County Executive, Comptroller and the Erie County Audit Committee.	2014

January 2013

**QUALITY ASSURANCE REVIEW
DIVISION OF AUDIT AND CONTROL**



**TERESA M. FRAAS
ERIE COUNTY DEPUTY - COMPTROLLER
AUDIT AND CONTROL**

January 18, 2013

Hon. Stefan I Mychajliw
Erie County Comptroller's Office
92 Franklin Street, 11th Floor
Buffalo, New York 14202



Dear Hon. Mychajliw,

At your request, I have completed a quality assurance review of the Erie County Division of Audit and Control to evaluate the overall effectiveness of the operations and compliance with relevant policies and standards.

Following is a brief outline of my key findings.

Sincerely,

Teresa M. Fraas
Erie County Deputy Comptroller – Division of Audit and Control

cc: Erie County Legislature

BACKGROUND

Because Erie County continues to face fiscal challenges and the Erie County Comptroller's desire to return Erie County to a path of fiscal stability, the Comptroller's priorities will include identifying and eliminating fraud, waste, and abuse by those entrusted with public responsibilities, reforming ineffective and wasteful programs, and taking every opportunity to achieve cost savings. If taxpayers are to obtain the returns they deserve on their tax dollars, programs must be driven by performance and focused on results. All of these actions and more are essential to restoring Erie County to good financial health. To this end, the Division of Audit and Control is responsible with conducting audits and reviews to provide the Executive and Legislative branches, as well as the public, with an independent and objective view of how county government can operate more efficiently and effectively. Audits and reviews also increase transparency and accountability for taxpayer-funded operations and services. To ensure that audits are completed efficiently and are effective, the Comptroller requested the Deputy Comptroller - Audit and Control perform a quality assurance review of the department operations.

EXECUTIVE SUMMARY

I completed a quality assurance review of the Division of Audit and Control department operations to determine the overall effectiveness of the operations and to ensure that we are following the standards set by the Institute of Internal Auditors and the Generally Accepted Government Auditing Standards. My information was obtained through discussions with current audit staff and other employees of the County familiar with past audit activities. I reviewed prior year workpapers and audit reports issued by this department. I collected and reviewed all department policies, procedures and manuals. I also considered the recommendations for improvements contained in a peer review report dated December 19th, 2012 issued by Bonadio & Co., LLP and the management letter comments issued June 27th, 2012 by the external auditors Drescher and Malecki. I followed the Administrative Review Checklist included in the Government Auditing Standards. Below is a listing of the key findings. It is not all-inclusive.

KEY FINDINGS

1. Organizational Responsibilities, Planning and Quality Control

- a. There is no audit department charter that details the responsibility and authority of the audit department.
- b. The current Audit Manual has not been updated since 2009. It is not comprehensive and does not include key topics such as mission statement, administrative policies and procedures, personnel policies and procedures, all audit policies and procedures and quality control policies and procedures.
- c. There is no system in place for planning and controlling individual assignments.
- d. There is a lack of internal review or periodic internal quality control review to identify ways of achieving more effective, efficient and economical performance or to test audit reports and workpapers to ensure compliance with accepted audit standards.

2. Independence

- a. Past practices did not allow for audits to be conducted and/or results reported free from interference, control or influence from the entity under audit or other departments of the County.
- b. The audit department did not pursue legal or administrative means to obtain records and documents needed to do an audit.
- c. Current audit organizational practices do not promote the exercise of professional judgment by audit team members.

3. Qualifications

- a. We will continue to work collaboratively with the Commissioner of Personnel to determine whether or not current audit staff has the education, experience, ability and skills required to perform professional audits.
- b. The continuing education program does not comply with industry standards.

4. Performance Evaluations

- a. Performance and proficiency criteria in the job description are not sufficient to select the best-qualified individuals.

- b. There is no formalized employee performance evaluation process and no requirement for periodic evaluation.

5. Supervision

- a. There are no written policies and procedures regarding the supervision of audit work
- b. Current staffing levels include one senior auditor who has not been assigned any supervisory responsibilities.
- c. Audit status reports do not exist and time budgets were not established for audit projects.

6. Evidence and Workpapers

- a. There is no written guidance on obtaining and documenting evidence.
- b. No written instructions for preparing workpapers.

7. Internal Controls

- a. Audit steps have not been designed to assess the presence, effectiveness or adequacy of internal control procedures or practices.

8. Legal Compliance

- a. There is no requirement that auditors design program steps and procedures that will provide reasonable assurance that an audited entity adhered to the requirements of law and regulation.
- b. Current procedures do not require auditors to assess the risk that abuse and/or illegal acts could occur or require that audit procedures be extended when abuse and/or illegal acts are suspected.

9. Reporting

- a. Prior audit report findings may not be based on sufficient objective evidence.
- b. No written guidance covering how to develop a finding nor on report preparation.
- c. No requirement for an independent reviews of the workpapers to verify that the report facts and conclusions are supported by the workpapers.

CORRECTIVE ACTION PLAN

Because of this thorough review I am developing a corrective action plan to address each of the deficiencies identified above. The plan will include specific tasks and expected results. I will review the status of the completion of each of the items with the Comptroller on a monthly basis. Most action plan items will be completed by December 31st, 2013.